IOWA STATE UNIVERSITY
OF SCIENCE AND TECHNOLOGY

Financial Report
For the year ended June 30, 2006

For the year ended June 30, 2006

Iowa State University provides this Management's Discussion and Analysis as a narrative overview of the financial activities of the University for the year ended June 30, 2006, along with comparative data for the years ended June 30, 2005, and 2004. Readers are encouraged to consider this information in conjunction with the University's financial statements that follow.

Iowa State University follows GASB Statement No. 39 which requires the primary government to discretely present, within its own statements, the financial statements of certain component units. As explained in Note 1B3, the Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation") are a legally separate, tax-exempt component unit of the University and, accordingly, the combined financial statements are discretely presented with those of the University. However, since the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University, a discussion of these assets is not included in this Management's Discussion and Analysis.

USING THIS ANNUAL REPORT

This analysis is intended to serve as an introduction to Iowa State University's basic financial statements. These basic financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These provide information on the University as a whole and present both a short term as well as a longer term view of the University's financial position. These basic financial statements also include the Notes to the Financial Statements which explain and provide further detail of the basic statements.

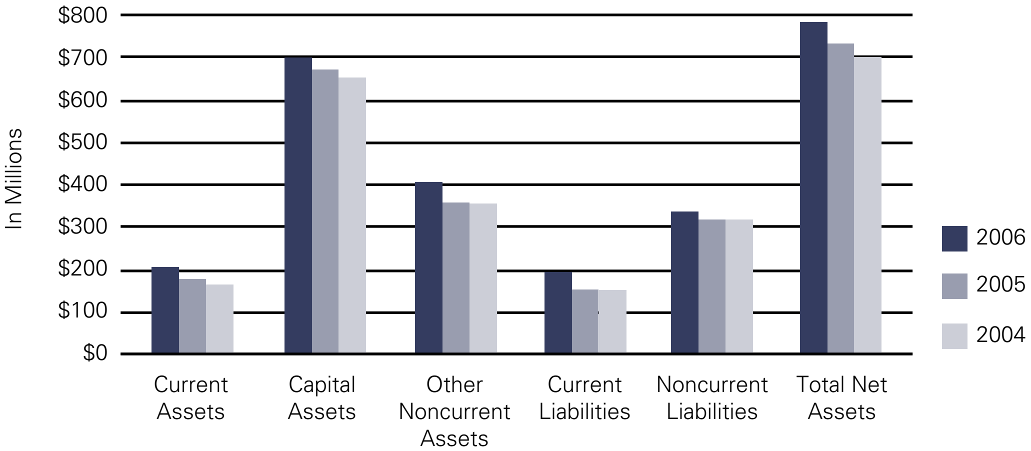
THE UNIVERSITY AS A WHOLE

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. Net Assets—the difference between assets and liabilities—is one indicator of the current financial condition of the University, while the change in net assets (shown on the next statement) is an indicator of whether the overall financial condition has improved during the year. The Statement of Net Assets is also a good source for readers to determine how much the University owes to outside vendors, investors, and lending institutions. Similarly, the Statement presents the available assets that can be used to satisfy those liabilities.

	June 30, 2006	June 30, 2005	June 30, 2004
Current Assets	$ 209,454,433	$ 176,888,165	$ 164,569,535
Capital Assets	695,658,025	671,676,503	649,041,722
Other Noncurrent Assets	406,452,276	357,216,970	354,932,346
Total Assets	1,311,564,734	1,205,781,638	1,168,543,603
Current Liabilities	199,597,639	155,926,064	151,619,320
Noncurrent Liabilities	333,318,463	319,722,346	319,323,031
Total Liabilities	532,916,102	475,648,410	470,942,351
Total Net Assets	$ 778,648,632	$ 730,133,228	$ 697,601,252

Total assets at June 30, 2006, were $1.3 billion, which is $105.8 million higher than the prior year. Net capital assets comprised $695.7 million of the $1.3 billion in assets, which is a similar proportion to that of 2005. Total liabilities were $532.9 million at June 30, 2006, an increase of $57.3 million. The comparison of current and noncurrent assets, liabilities, and net assets as of June 30, 2006, 2005, and 2004 is shown above. The proportional increases in both assets and liabilities were greater than those of the prior years and are explained in more detail in the next section.



Changes in Net Assets

Net assets increased $48.5 million, or 6.6% for the year. Generally, an increase in net assets indicates that the financial condition has improved over the year, at least on a short-term basis. Significant changes in net assets occurred in the following areas:

- Cash and cash equivalents plus investments increased $80 million in 2006. Some of the significant transactions were: the sale of the Ankeny Dairy Farm provided unspent proceeds of $13.8 million and unexpended proceeds from bond issues increased $16.4 million. In addition, the University sold Dormitory Refunding bonds in April 2006 and held the proceeds of $17.4 million in the Agency Fund until the bonds were called in the fall of 2006.
- Capital assets, net of depreciation, increased $24 million. Capital assets are discussed in greater detail later in this Management's Discussion & Analysis.
- The liability, deposits held in custody for others increased $23.6 million primarily due to holding the proceeds of the bond defeasance discussed in the first bullet.

Total net assets at June 30, 2006, were $778.6 million. The largest portion of the University's net assets (59.5%) is categorized as Invested in Capital Assets, Net of Related Debt. This category contains the land, buildings, infrastructure, land improvements, and equipment owned by the University. The restricted portion of the net assets (8.3%) is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by the external entities that have placed time or purpose restrictions on the use of the assets. The remaining net assets are unrestricted net assets, including those used to meet specific purposes such as funding for the bonded enterprises. The composition of the net asset balances is shown below. The categories, as a percentage of total net assets, have not changed significantly since 2004.

	June 30, 2006	*June 30, 2005*	*June 30, 2004*
Invested in Capital Assets, Net of Related Debt	*$463,017,681*	*$437,496,011*	*$414,256,199*
Restricted Nonexpendable	*28,891,868*	*28,481,172*	*28,071,960*
Restricted Expendable	*35,743,095*	*36,953,615*	*39,531,279*
Unrestricted	*250,995,988*	*227,202,430*	*215,741,814*
Total Net Assets	*$778,648,632*	*$730,133,228*	*$697,601,252*

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the operating and nonoperating revenues earned by the University, the operating and nonoperating expenses incurred by the University, and any other revenues, expenses, gains and losses earned or incurred by the University.
In general, a public university such as Iowa State University will report an operating loss since the financial reporting

model classifies state appropriations as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the University. Operating expenses are those expenses paid to carry out the missions of the University. Nonoperating revenues are revenues received where goods and services are not provided.

Had state appropriations been included in operating revenues, the operating loss for 2006 would have been $22.7 million compared to $14.2 million for 2005 and $24.5 million for 2004. Auxiliary enterprises accounted for much of the change since revenue increased $3.7 million and expenses increased $6.7 million. This is the inverse of the results of operations from 2005. An auxiliary enterprise frequently experiences timing variations in the business cycle such as this.

As noted in the previous section, when all nonoperating and other revenues and expenses are considered, revenues exceeded expenses by $48.5 million for 2006.

	For the Years Ended		
	June 30, 2006	*June 30, 2005*	*June 30, 2004*
Operating Revenues	*$524,389,695*	*$501,750,646*	*$476,204,171*
Operating Expenses	*792,672,007*	*752,141,362*	*737,403,115*
Operating Loss	*(268,282,312)*	*(250,390,716)*	*(261,198,944)*
Nonoperating Revenues and Expenses	*305,685,950*	*273,167,354*	*259,880,319*
Income/(Loss) Before Other Revenues, Expenses, Gains and Losses	*37,403,638*	*22,776,638*	*(1,318,625)*
Other Revenues, Expenses, Gains and Losses	*11,111,766*	*9,755,338*	*31,879,666*
Increase in Net Assets	*48,515,404*	*32,531,976*	*30,561,041*
Net Assets, Beginning of Year	*730,133,228*	*697,601,252*	*667,040,211*
Net Assets, End of Year	*$778,648,632*	*$730,133,228*	*$697,601,252*

Revenues

Operating revenues for the year ended June 30, 2006, increased $22.6 million. Major components of this change were:

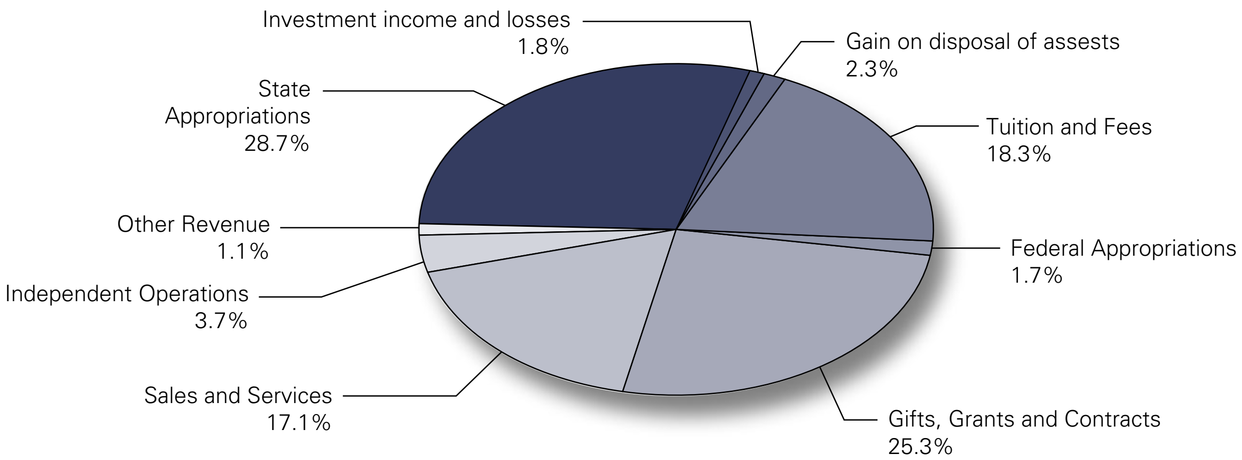
- Tuition and fees, net of scholarship allowances, increased $4.3 million, or 2.8%. Tuition rates increased 4% but the increase was partially offset by a 2.4% decline in enrollment.
- Federal grants and contracts increased $4.2 million. Increases were primarily in awards from Department of Defense, Department of Agriculture and National Science Foundation.
- Sales and services of educational activities increased $4.1 million due to an increase in fee-for-service type operations that are a natural outgrowth of reduced funding from the state.

Nonoperating revenues increased $32.3 million due primarily to the $21 million gain from the sale of the Ankeny Dairy Farm. In addition, state appropriations increased $9.4 million or 4%.

Other revenues increased $2.4 million, or 24.3%, over the prior year, due primarily to a $4.3 million increase in capital gifts, grants and contracts which are further discussed in a later section of this MD&A. This increase is offset by a decrease in capital appropriations of $1.9 million as no funds were appropriated from the State of Iowa in 2006.

In summary, total revenues of the University increased $57.3 million in 2006 from $798 million to $855.4 million. The components of these revenues are shown on the following graph.

Total Revenues



In comparing the years ended June 30, 2005, and 2004, operating revenues increased $25.5 million. The major elements of this increase were tuition and fees, net of scholarship allowances, which increased $6.6 million, Federal grants and contracts which increased $9 million and other operating revenues that increased $4.5 million. In fiscal 2005, other revenues decreased $22.2 million from 2004 due primarily to reductions in capital appropriations and capital gifts, grants and contracts.

Expenses

Operating expenses were $792.7 million for the 2006 fiscal year. This was an increase of 5.4%, or $40.5 million over the previous year. Changes in the major natural expense categories were:

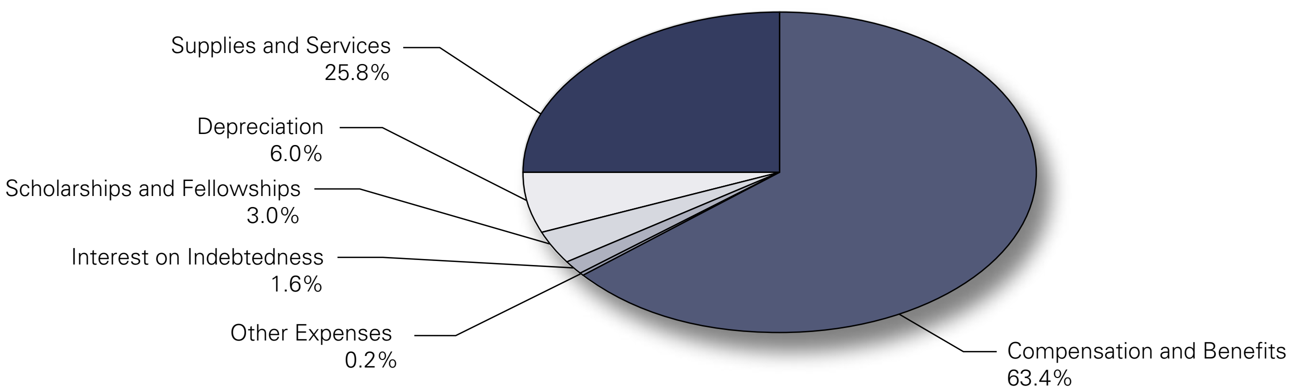
- Compensation and benefits increased $21.8 million or 4.5%. This reflects average salary increases of 3.7% plus increases in the cost of fringe benefits.
- Supplies increased $10.9 million or 10.9%. The largest increase was in auxiliary operations. As noted in an earlier section, auxiliary expenses can fluctuate from year to year due to timing variations.
- Services and repairs increased $7.2 million or 8.1%.

Operating expenses may be classified according to natural categories as in the previous paragraph or functionally as shown in the financial statements. From a functional perspective, the largest dollar increases were in research, which mirrors the increase in grant and contract revenues, and auxiliaries which have been discussed previously.

Nonoperating expenses were very consistent with the prior year, having declined by 1.5%. In addition, $1 million of other expense was related to defeasance of the Dormitory Revenue bonds.

In summary, total expenses for 2006 were $806.8 million, an increase of $41.3 million or 5.4%. The components of these expenses are shown in the following graph:

Total Expenses



Comparing the years ended June 30, 2005, and 2004, operating expenses in fiscal 2005 increased $14.7 million over those of 2004, which is somewhat less than the increase from 2005 to 2006. In the natural classifications, percentages of the total have remained quite consistent over recent years. Functionally, Operations and maintenance and Public service had the majority of the increase. In fiscal 2005, nonoperating expenses decreased $18.9 million over those of 2004 since 2004 expenses were unusually high due to the write off of items below the new capitalization threshold.

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of the University for the fiscal year. This Statement also aids in the assessment of the University's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing. The Statement of Cash Flows presents information related to cash inflows and outflows, categorized as operating, non-capital financing, capital and related financing, and investing activities.

Cash provided by operating activities includes tuition and fees and grant and contract revenues. Cash used for operating activities includes payments to employees and to suppliers. Cash provided or used by non-capital financing activities includes state appropriations, the receipt and disbursement of the federal direct loan program, and non-capital gifts. Cash provided or used for capital and related financing activities represents proceeds from debt, the principal and interest payments towards debt, capital appropriations, capital gifts and grants, and the purchase and construction of capital assets. Cash provided or used by investing activities includes purchases and sales of investments as well as investment income and losses realized.

Cash and cash equivalents decreased $6.6 million or 7.4% in 2006. A significant decrease in cash is typically viewed negatively. However, this simply represents the continued effects of the shifting of investment strategy in 2005 from cash equivalents to investments. Investments increased 25% during the same period, the effect of which is incorporated into the table below under Investing Activities.

	For the Years Ended		
	June 30, 2006	*June 30, 2005*	*June 30, 2004*
Cash Provided/(Used) by:			
Operating Activities	*$(211,824,152)*	*$(209,240,903)*	*$(211,678,830)*
Non-capital Financing Activities	*312,167,827*	*276,769,645*	*295,045,760*
Capital and Related Financing Activities	*(38,060,784)*	*(59,348,318)*	*(95,496,565)*
Investing Activities	*(68,842,921)*	*(80,600,110)*	*27,106,328*
Net Increase/(Decrease) in Cash	*(6,560,030)*	*(72,419,686)*	*14,976,693*
Cash and Cash Equivalents, Beginning of Year	*88,655,363*	*161,075,049*	*146,098,356*
Cash and Cash Equivalents, End of Year	*$ 82,095,333*	*$ 88,655,363*	*$ 161,075,049*

As noted previously, the financial reporting model mandates that state appropriations be classified as non-capital financing sources of cash. If state appropriations had been classified as operating sources of cash, the cash provided by operations would have been $33.7 million for 2006 compared to $26.9 million for 2005 and $25 million for 2004. The increase is due primarily to increases in cash receipts from grants and contracts and state appropriations offset by increases in payments for salaries and benefits and supplies and services.

CAPITAL ASSETS

At June 30, 2006, the University had $1.4 billion invested in capital assets, with accumulated depreciation of $730.6 million for net capital assets of $695.7 million. Depreciation charges for fiscal year 2006 totaled $48.4 million. Capital assets, net of accumulated depreciation, were as follows:

	June 30, 2006	June 30, 2005	June 30, 2004
Land and Land Improvements, Nondepreciable	$ 16,154,572	$ 9,998,926	$ 10,152,159
Construction in Progress	44,338,738	39,069,583	60,852,710
Infrastructure and Land Improvements, Depreciable	85,179,620	67,914,630	69,291,282
Buildings	450,375,529	460,026,612	416,881,966
Equipment and Library Collections	99,609,566	94,666,752	91,863,605
Total Capital Assets, Net Of Accumulated Depreciation	$695,658,025	$671,676,503	$649,041,722

During fiscal year 2006, several major projects were placed in service, including the Carver Hall renovation and the remodeling of Pearson Hall. Both these projects were funded from a combination of University sources.

Several major construction projects were in progress at June 30, 2006. These are included in capital assets as construction in progress and will not be depreciated until the year they are placed in service. These projects include:

- Morrill Hall renovation
- Veterinary Medicine Hospital & Lab renovation
- Memorial Union renovation
- Coover Hall addition
- Hixson-Lied Student Success Center
- Dairy Science Education and Discovery Facility

The Morrill Hall renovation has been funded with capital appropriations, private gifts and various University sources. The Veterinary Medicine Hospital & Lab renovation and the Coover Hall addition have been funded with proceeds from Academic Revenue Bonds and private gifts. The Memorial Union renovation has been funded with proceeds from Memorial Union Revenue Bonds. The Hixson-Lied Student Success Center has been funded with private gifts. The Dairy Science Education and Discovery Facility has been funded with the proceeds of the sale of the Ankeny Dairy Farm.

Capital Appropriations, Grants and Contracts

Capital appropriations from the State of Iowa have traditionally been a significant source of funding for construction of new buildings as well as major renovations. While no capital appropriations were received in 2006, appropriations of $1.9 million in 2005 and $10.2 million in 2004 were for improvements to miscellaneous classrooms and auditoriums.

In addition, capital gifts and grants revenue of $11.8 million was recognized, an increase of $4.3 million mostly from the Iowa State University Foundation for projects such as Morrill Hall and the Hixson-Lied Student Success Center. More detailed information about the University's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At June 30, 2006, the University had $300.2 million in outstanding debt compared to $285.1 million for the prior year. Detailed information about the University's outstanding debt is presented in Note 6 to the financial statements. The table below summarizes outstanding debt by type:

	June 30, 2006	*June 30, 2005*	*June 30, 2004*
Bonds Payable-Academic	*$ 72,427,128*	*$ 58,330,000*	*$ 66,080,000*
Bonds Payable-Enterprise Funds	*221,598,092*	*222,715,480*	*205,390,896*
Capital Leases	*4,295,120*	*2,121,819*	*2,458,980*
Notes Payable	*1,835,102*	*1,898,974*	*6,314,220*
Total Debt	*$300,155,442*	*$285,066,273*	*$280,244,096*

In 2006, two issuances of Academic Revenue bonds increased bonds payable by $14,097,128. For 2005, the increase in bonds payable for enterprise funds was due to the issuance of Memorial Union Revenue Bonds of $24,625,000.

The 2006 increase in capital leases was for the Hilton Coliseum video scoreboard system. In 2005, the decrease in Notes Payable was due to the refinancing of the Memorial Union Note as Memorial Union Revenue Bonds.

ECONOMIC OUTLOOK

The University's economic outlook continues to improve. The financial support from state government, student tuition and fees, and increasing revenues from private giving continues to improve. Including the Iowa Values Fund, state support increased by $11.7 million and modest tuition rate increases of 4% permitted the University to make progress on implementing its strategic plan in 2006. Looking forward towards 2007, state revenues continue to improve above budget projections providing the opportunity for increased state support.

The University's enrollment is above projections. The University continues to have the largest direct entering freshman class of any Iowa institutions with competitive tuition and room and board rates. The University continues to implement its strategic plan, ***Forward Thinking***, a five year plan through 2010.

The Board of Regents, State of Iowa have adopted a strategic plan that is intended to provide resources essential for high quality public education, cutting-edge research and creative activities, along with needed public services. These plans propose increases in operating support based upon the Higher Education Price Index which for the next year would increase basic support by 5.2%. A priority is being placed upon improving competitive faculty salaries to recruit and retain faculty members who are the very best in their fields. Increased state support would make permanent current one time funding and replace the energy surcharge. If approved this would provide $24.3 million in additional funding.

Iowa State's mission, as stated in ***Forward Thinking***, is to "create, share and apply knowledge to make Iowa and the world a better place". Transforming the world through the discovery and application of knowledge is what land-grant institutions were created to do, and our vision to "be the best at advancing the land-grant ideals and putting science and technology to work". That means achieving excellence in all areas of our mission.

Forward Thinking identifies five institutional priorities for the fulfillment of the University's mission and the achievement of its vision. Those five priorities are:

- **Education**. Strengthen undergraduate, graduate, and professional education to enhance student success at Iowa State University and beyond.
- **Programs**. Increase the number of graduate, professional, and research programs that are among the very best—especially in areas that build on the University strengths and address local and global critical needs.
- **Economic Impact**. Translate discoveries into viable technologies, products, and services to strengthen the economies of Iowa and the world.
- **Iowa Life**. Elevate the state's appeal as a place to live, learn, work, and play.
- **University Life**. Ensure that the University is a great place to learn and work.

The University's enrollment has declined slightly to 25,462 which continues to reflect fewer Iowa high school graduates, higher tuition and fees impacting some students, and visa issues and challenges in entering the United States having an impact on international students. The University is expanding student aid and recruitment programs to maintain enrollment at or above the current levels. The entering freshman class is larger which will stabilize enrollment. The University continues to have a very successful private philanthropy program. Over 54,000 donors have committed more than $91 million since 2003. The Iowa State University Foundation is planning a major capital campaign that will be publicly launched in the Fall of 2007.

The political leadership in Iowa is indicating support for new initiatives by the Board of Regents, State of Iowa to increase state funding. Supporting education continues to be a state priority. The three public universities are cooperating in a state-wide effort to increase public support. Contacts with alumni, community leaders and elected officials indicate support. The University continues to receive strong support from elected federal officials who are in key positions in Congress. Private giving and endowment returns are improving. With only three public four-year higher education institutions, governed by a single board, the public universities are strategically seen as critical in improving the state's economic climate. Iowa State University is initiating a major commitment in biorenewables and alternative energy resources. There is a great deal of interest in both the private and public sectors to develop alternative fuels. Iowa is uniquely positioned with ethanol facilities and the ability to grow alternative crops. The University is one of a limited number of institutions being asked to submit proposals to launch major research and development initiatives.

In order to continue to provide a high quality educational experience, tuition rates were increased 4% for Fall 2006. The University's overall tuition rates remain competitive with surrounding public and other peer institutions. The University continued the great success of its learning communities, the Center for Teaching Excellence, and other initiatives to improve faculty teaching skills and student learning. Students continue to report very high employment rates in their respective fields and/or continuing professional or graduate education. Employers and others clearly value an Iowa State University degree.

A third major source of revenue, sponsored funding, continues to experience steady growth. Awards received in fiscal year 2006 were $279 million. Although the University has a broad base of sponsored funding, it continues to focus on core strategic initiatives. During the past five years, sponsored funding has increased 24%. The University continues to be rated very high in R&D 100 awards, number of patents and invention disclosures received, and in licenses executed. The Plant Sciences Institute, a strategic initiative, is becoming a major worldwide center and occupied new state-of-the-art facilities with additional green house space. Initiatives in information assurance, food safety and bio-renewable resources are receiving increased support.

Currently being planned or under construction are a new Chemistry Building, Alumni Center, renovation of the College of Veterinary Medicine, Coover Hall renovation for electrical and computer engineering, renovation of the student Memorial Union facility, Hilton Coliseum improvements, Morrill Hall renovation, general classroom renovations, and a Student Success Center to provide academic support services to students, including student athletes.

Iowa State University continues to make important progress toward fulfilling the goals of its 2005-2010 Strategic Plan, ***Forward Thinking***. We continue our historic missions to be the best at advancing the land-grant ideals and putting science and technology to work. More than 20% of Iowa's population has interacted with Iowa State University to receive education, to improve their quality of life, and to improve economic prospects for them, their companies and their communities.

Although economic challenges continue, the economy is improving and state support increasing. The University is strengthening its academic excellence that makes it one of the nation's best universities in fulfilling its land-grant mission.

CONTACTING IOWA STATE UNIVERSITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide users with a general overview of Iowa State University's finances and to demonstrate the University's accountability for the funds received. Questions regarding this report or requests for additional financial information should be directed to the Controller's Department, Iowa State University, 3607 Administrative Services Building, Ames, IA 50011-3607.

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report

To the Members of the
Board of Regents, State of Iowa:

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows, of Iowa State University of Science and Technology, Ames, Iowa, (Iowa State University) and its discretely presented component unit as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (herein collectively referred to as the "Foundation"), discussed in note 1, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the financial statements of the blended component units, Iowa Sate University Research Foundation, Incorporated and Miller Endowment, Incorporated as discussed in note 1, which represents 3.6% and 0.4%, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented and blended component units, are based on the reports of the other auditors.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (the "Foundation") and Iowa State University Research Foundation, Incorporated were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits and the reports of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Iowa State University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of Iowa State University. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Iowa State University and its discretely presented component unit at June 30, 2006 and 2005, and the respective changes in their financial position and their cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 2 through 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

The report on Iowa State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters required by Government Auditing Standards will be issued under separate cover. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 1, 2006

IOWA STATE UNIVERSITY
STATEMENT OF NET ASSETS

As of June 30, 2006 and 2005

ASSETS	2006	2005
Current Assets:		
Cash and cash equivalents (Note 2A)	$ 12,331,748	$ 29,337,357
Investments (Note 2B)	129,432,165	85,388,836
Deposits with trustees (Note 2D)	98,403	98,403
Accounts receivable, net (Note 3A)	20,393,297	16,633,403
Due from government agencies (Note 3B)	26,861,367	26,300,629
Interest receivable	1,737,153	1,547,851
Inventories (Note 4)	15,137,553	14,491,278
Prepaid expenses	3,462,747	3,090,408
Total Current Assets	**209,454,433**	**176,888,165**
Noncurrent Assets:		
Cash and cash equivalents (Note 2A)	69,763,585	59,318,006
Investments (Note 2B)	303,711,128	261,229,476
Deposits with trustees (Note 2D)	19,708	80,932
Accounts receivable, net (Note 3A)	6,341,749	8,107,675
Due from government agencies (Note 3B)	2,822,500	5,714,552
Interest receivable	611,957	633,002
Prepaid expenses		93
Student loans receivable, net (Note 3C)	23,121,278	22,072,863
Equity in wholly owned subsidiary (Note 1B)	60,371	60,371
Capital assets, net of accumulated depreciation (Note 5)	695,658,025	671,676,503
Total Noncurrent Assets	**1,102,110,301**	**1,028,893,473**
TOTAL ASSETS	**1,311,564,734**	**1,205,781,638**
LIABILITIES		
Current Liabilities		
Accounts payable	42,541,222	33,777,862
Salaries and wages payable	3,517,302	2,646,156
Unpaid claims liability (Note 10B)	3,536,000	3,083,000
Deferred revenue	39,181,869	29,697,003
Interest payable	7,507,796	7,623,974
Long-term debt, current portion (Note 6)	16,402,636	15,438,869
Other long-term liabilities, current portion (Note 6)	19,334,456	19,702,541
Deposits held in custody for others	67,576,358	43,956,659
Total Current Liabilities	**199,597,639**	**155,926,064**
Noncurrent Liabilities		
Accounts payable	4,329,218	2,768,809
Long-term debt, noncurrent portion (Note 6)	283,752,806	269,627,404
Other long-term liabilities, noncurrent portion (Note 6)	45,236,439	47,326,133
Total Noncurrent Liabilities	**333,318,463**	**319,722,346**
TOTAL LIABILITIES	**532,916,102**	**475,648,410**
NET ASSETS		
Invested in capital assets, net of related debt	463,017,681	437,496,011
Restricted (Note 8):		
Nonexpendable	28,891,868	28,481,172
Expendable	35,743,095	36,953,615
Unrestricted	250,995,988	227,202,430
TOTAL NET ASSETS	**$ 778,648,632**	**$ 730,133,228**

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $42,474,275 and $41,614,799 for the years ended June 30, 2006 and 2005, respectively (Note 1N)	$ 156,244,465	$ 151,932,879
Federal appropriations	14,135,558	12,446,533
Federal grants and contracts	131,934,811	127,716,877
State and local government grants and contracts	15,954,563	14,946,182
Nongovernmental grants and contracts	18,596,835	17,379,692
Sales and services of educational activities	40,154,920	36,058,308
Auxiliary enterprises, net of scholarship allowances of $3,737,489 and $3,523,178 for the years ended June 30, 2006 and 2005, respectively (Note 1N)	106,268,991	102,617,729
Independent operations	31,764,515	29,074,687
Interest on student loans	443,862	332,153
Other operating revenues	8,891,175	9,245,606
TOTAL OPERATING REVENUES	**524,389,695**	**501,750,646**
OPERATING EXPENSES		
Instruction	179,145,194	173,310,115
Research	159,850,053	152,239,880
Public service	74,619,377	69,347,881
Academic support	75,605,208	70,038,147
Student services	29,538,212	25,563,011
Institutional support	28,126,450	29,656,846
Operation and maintenance of plant	51,414,987	48,028,099
Scholarships and fellowships	24,269,829	24,662,225
Auxiliary enterprises	88,195,082	81,535,973
Independent operations	32,983,619	29,781,628
Depreciation	48,386,078	47,002,813
Other operating expenses	537,918	974,744
TOTAL OPERATING EXPENSES	**792,672,007**	**752,141,362**
OPERATING LOSS	**(268,282,312)**	**(250,390,716)**
NONOPERATING REVENUES/(EXPENSES)		
State appropriations	245,570,307	236,156,073
Federal grants and contracts	11,048,991	12,492,612
Nonfederal gifts, grants and contracts	27,235,782	25,372,668
Investment income/(loss)	15,024,971	12,491,011
Interest on indebtedness	(12,811,112)	(12,503,876)
Gain/(loss) on disposal of capital assets	19,954,332	(668,211)
Other nonoperating income/(loss)	(337,321)	(172,923)
NET NONOPERATING REVENUES/(EXPENSES)	**305,685,950**	**273,167,354**
INCOME BEFORE OTHER REVENUES, EXPENSES GAINS AND LOSSES	**37,403,638**	**22,776,638**
Capital appropriations		1,949,100
Capital gifts, grants and contracts	11,782,645	7,506,238
Additions to permanent endowments	345,000	300,000
Loss on refunding bonds	(410,000)	
Disbursed to trustee for debt defeasance	(605,879)	
TOTAL OTHER REVENUES, EXPENSES, GAINS & LOSSES	**11,111,766**	**9,755,338**
INCREASE IN NET ASSETS	**48,515,404**	**32,531,976**
Net Assets, Beginning of Year	730,133,228	697,601,252
NET ASSETS, END OF YEAR	**$ 778,648,632**	**$ 730,133,228**

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 154,615,928	$ 152,393,816
Federal appropriations	14,912,302	12,285,023
Grants and contracts	173,335,323	156,858,827
Sales of educational activities	39,452,963	35,706,477
Sales and services of auxiliary enterprises	104,842,273	104,607,266
Receipts of independent operations	32,171,860	28,934,281
Interest on loans to students	586,906	631,227
Collections of loans from students	6,405,190	7,741,362
Payments for salaries and benefits	(511,827,104)	(494,820,525)
Payments for goods and services	(202,991,798)	(188,029,330)
Scholarship payments	(23,969,971)	(24,122,072)
Loans issued to students	(7,743,679)	(7,527,489)
Other operating receipts	8,385,655	6,100,234
NET CASH USED BY OPERATING ACTIVITIES	**(211,824,152)**	**(209,240,903)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	245,570,307	236,156,073
Non-capital gifts, grants and contracts	39,069,486	38,523,892
Direct lending receipts	137,353,022	137,165,410
Direct lending payments	(137,620,677)	(136,903,860)
Funds held for others receipts	282,341,336	292,765,112
Funds held for others payments	(254,545,647)	(290,936,982)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	**312,167,827**	**276,769,645**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	2,891,000	6,188,000
Capital gifts and grants received	10,437,972	11,647,493
Proceeds from capital debt	30,230,630	25,613,353
Proceeds from sale of capital assets	21,859,780	531,930
Acquisition and construction of capital assets	(72,451,699)	(69,445,554)
Principal paid on capital debt	(16,019,183)	(19,276,596)
Interest paid on capital debt	(14,073,409)	(14,437,071)
Other capital and related financing payments	(935,875)	(169,873)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(38,060,784)**	**(59,348,318)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received on investments	15,574,824	12,923,286
Proceeds from sales of investments	253,568,350	335,738,536
Purchases of investments	(337,986,095)	(429,261,932)
NET CASH USED BY INVESTING ACTIVITIES	**(68,842,921)**	**(80,600,110)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(6,560,030)**	**(72,419,686)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	88,655,363	161,075,049
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 82,095,333**	**$ 88,655,363**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	**$(268,282,312)**	**$(250,390,716)**
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	48,386,078	47,002,813
Changes in assets and liabilities:		
Accounts receivable, net	(4,341,049)	(4,379,297)
Inventories	(659,554)	(1,144,809)
Prepaid expenses	(373,564)	20,390
Student loans receivable	(948,610)	942,392
Equity in wholly owned subsidiary		3,964
Accounts payable	6,236,237	1,402,979
Deferred revenue	9,013,644	1,821,709
Compensated absences	1,407,613	(1,508,295)
Early retirement benefits payable	(2,360,023)	(3,210,840)
Deferred compensation liability	97,388	
Refundable advances on student loans		198,807
NET CASH USED BY OPERATING ACTIVITIES	**$(211,824,152)**	**$(209,240,903)**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital gifts-in-kind	$ 109,500	$ 415,000

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS

Cash and cash equivalents classified as current assets	$ 12,331,748	$ 29,337,357
Cash and cash equivalents classified as noncurrent assets	69,763,585	59,318,006
TOTAL CASH AND CASH EQUIVALENTS	**$ 82,095,333**	**$ 88,655,363**

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY FOUNDATION
IOWA STATE UNIVERSITY ACHIEVEMENT FUND
ORIGINAL UNIVERSITY FOUNDATION
COMBINED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2006 and 2005

	2006	2005
ASSETS		
Cash and cash equivalents	$ 4,691,921	$ 3,414,010
Receivables:		
Pledges, net (Note 3D)	39,468,345	37,329,040
Estates	13,731,561	6,298,593
Funds held in trust by others	16,865,088	18,415,862
Total receivables	70,064,994	62,043,495
Investments (Note 2C):		
Pooled investments	404,747,397	361,576,178
Other marketable securities	40,392,897	42,072,788
Equity in subsidiary	2,161,867	2,093,394
Real estate and other investments	8,743,243	12,168,687
Total investments	456,045,404	417,911,047
Property and equipment	3,486,961	3,634,166
Other assets	3,022,132	2,804,739
TOTAL ASSETS	**$537,311,412**	**$489,807,457**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$628,059	$746,626
Due to related organizations	6,261,356	8,909,303
Bonds payable	3,408,280	3,567,124
Long-term liabilities	4,948,953	5,245,882
Annuities payable	23,092,861	22,707,987
TOTAL LIABILITIES	**38,339,509**	**41,176,922**
NET ASSETS (Note 8)	**498,971,903**	**448,630,535**
TOTAL LIABILITIES AND NET ASSETS	**$537,311,412**	**$489,807,457**

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY FOUNDATION
IOWA STATE UNIVERSITY ACHIEVEMENT FUND
ORIGINAL UNIVERSITY FOUNDATION
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	$ 2,886,793	$ 39,500,001	$ 26,036,025	$ 68,422,819	$ 59,079,398
Investment return					
Pooled investments	4,813,248	10,919,812	12,078,561	27,811,621	27,273,026
Nonpooled investments	314,008	822,757	1,793,887	2,930,652	3,498,350
Equity in net income/(loss) of subsidiary	168,473			168,473	(453,534)
Total investment return	5,295,729	11,742,569	13,872,448	30,910,746	30,317,842
Fundraising service revenue	2,258,096			2,258,096	2,181,414
Return on funds held in trust by others		185,651	(328,552)	(142,901)	1,126,443
Other earnings	37,032	417,756	76,621	531,409	498,207
Net assets released from restrictions	38,512,480	(38,512,480)		–	–
TOTAL REVENUES, GAINS AND OTHER SUPPORT	**48,990,130**	**13,333,497**	**39,656,542**	**101,980,169**	**93,203,304**
EXPENSES					
Program	38,784,042			38,784,042	33,503,016
Operating:					
Fundraising	7,308,468			7,308,468	6,567,473
Administrative	2,749,022			2,749,022	2,834,646
Annuity liability adjustment	(142,892)	547,795	2,392,366	2,797,269	(455,474)
TOTAL EXPENSES	**48,698,640**	**547,795**	**2,392,366**	**51,638,801**	**42,449,661**
CHANGE IN NET ASSETS	**291,490**	**12,785,702**	**37,264,176**	**50,341,368**	**50,753,643**
Net Assets, Beginning of Year	11,871,789	103,586,180	333,172,566	448,630,535	397,876,892
NET ASSETS, END OF YEAR	**$12,163,279**	**$116,371,882**	**$370,436,742**	**$498,971,903**	**$448,630,535**

See the accompanying notes which are an integral part of these financial statements.

For the Year Ended June 30, 2006

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Iowa State University of Science and Technology (Iowa State University), located in Ames, Iowa, is a land grant institution owned and operated by the State of Iowa, under the governance of the Board of Regents, State of Iowa (Board of Regents). The Board of Regents is appointed by the governor and confirmed by the state senate. Because the Board of Regents holds the corporate powers of Iowa State University, the University is not deemed to be legally separate. Accordingly, for financial reporting purposes, the University is included in the financial report of the State of Iowa, the primary government, as required by U.S. generally accepted accounting principles. The University is classified as a state instrumentality under Internal Revenue Code Section 115 and is exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The University offers courses of study leading to degrees at the undergraduate, graduate, and post-graduate levels. Degrees are available from seven colleges: Agriculture, Business, Design, Engineering, Human Sciences, Liberal Arts and Sciences, and Veterinary Medicine. Other major operating units of the University are: Agricultural Experiment Station; statewide Cooperative Extension Service; and the Ames Laboratory, a U.S. Department of Energy sponsored Independent Operation. The campus consists of approximately 1,788 acres. In addition, farms and other properties, which are stocked and equipped for teaching and research purposes, total approximately 9,463 acres.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the University (the primary government) and certain other entities for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. The GASB classification of these entities for the University's financial reporting purposes does not affect their respective legal or organizational relationships to the University.

1. **Wholly Owned Subsidiary –** Effective July 1, 1987, the University formed the ISU Equities Corp., (ISUEC), as a wholly owned subsidiary. The University has recorded the investment in this wholly owned subsidiary following the equity method of accounting. The University's carrying value as of June 30, 2006, was $60,371, the carrying value of ISUEC.

2. **Blended Component Units –** The Iowa State University Research Foundation, Inc. and Miller Endowment, Incorporated are entities which are legally separate from the University, but are so intertwined with the University that they are, in substance, part of the University. Accordingly, they are blended into the University's financial statements. The financial statements of these entities have been audited by other independent auditors and their reports may be obtained from the Office of the Vice President for Business and Finance at Iowa State University.

   Iowa State University Research Foundation, Inc. was organized as a corporation to assist in securing protection for intellectual property such as patents and copyrights resulting from research, writing, and other projects of members of the Iowa State University community. The revenues of this organization are included in the "Other operating revenues" classification and expenses included in the "Institutional support" classification in the Statement of Revenues, Expenses and Changes in Net Assets. For the year ended June 30, 2006, the revenues and expenses were $3,316,067 and $2,393,459, respectively.

   Miller Endowment, Incorporated was established December 18, 1995 pursuant to the will and codicil of F. Wendell Miller. The will and codicil appointed the presidents of Iowa State University and the State University of Iowa as co-executors of the Miller Estate and co-trustees of the Miller Endowment Trust, a charitable trust, and further directed that the two universities be equal beneficiaries of the income from said trust. The will and codicil also directed the trustees to have the right and discretion to create a charitable corporation, to be "Miller Endowment, Incorporated", to own, administer and control the affairs and property of the trust. This corporation has been organized under Chapter 504A of the Code of Iowa and Section 501(C)(3) of the Internal Revenue Code. During fiscal year 1998, the assets of the trust were officially transferred to Miller Endowment, Incorporated. Since the net revenues and assets of the corporation are solely for the equal benefit of the two universities, one half of the value of the corporation's transactions has been blended into the University's operations. For investment management purposes, all assets of the trust are pooled with the University's endowment funds. Accordingly, the State University of Iowa's half of the trust is included in the University's Cash and Cash Equivalents, Investments, and Deposits Held in Custody for Others.

3. **Discretely Presented Component Unit –** The Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation") are a legally separate, tax-exempt component unit of the University. The combined financial statements of the Foundation's organizations are presented in these financial statements because the organizations have a common Board of Directors, common management, and the common objective to promote the welfare of the University and its faculty, graduates, students, and former students. The mission of the Foundation is to secure and manage private gifts that support the University's aspiration to become the nation's best land-grant university. The Foundation strives to maximize the interest, involvement and, ultimately, enduring commitment of donors, and to manage donated assets for the benefit of the University in accordance with donors' wishes.

Although the University does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and its faculty, graduates, students and former students, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the years ended June 30, 2006 and 2005, the Foundation distributed and expended $38,784,042 and $33,503,016, respectively, on behalf of the University for both restricted and unrestricted purposes as follows:

	2006	*2005*
Scholarships, loan funds, and awards	*$ 13,220,044*	*$ 13,027,545*
Faculty and staff support	*4,422,484*	*4,508,946*
College and administrative support	*7,608,639*	*7,423,210*
Buildings, equipment, and repairs	*12,744,266*	*7,735,349*
Gifts in kind	*788,609*	*807,966*
Total Program Support	*$ 38,784,042*	*$ 33,503,016*

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Although the University is the exclusive beneficiary of the Foundation, the Foundation is independent of the University in all respects. The Foundation is not a subsidiary or affiliate of the University and is not directly or indirectly controlled by the University. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the University. Third parties dealing with the University should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Complete financial statements for the Foundation can be obtained from the Foundation at 2505 Elwood Drive, Ames, IA 50010-8644 or from the Foundation's website at www.foundation.iastate.edu/about/financial.

C. Financial Statement Presentation

The University's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB.)

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive entity-wide perspective of the University by requiring a Management's Discussion and Analysis; a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows.

When an expense is incurred for which both unrestricted and restricted net assets are available, the University's policy is to first apply the restricted resources before the unrestricted resources.

The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless those pronouncements conflict or contradict GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

D. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined in GASB Statement No. 35. Accordingly, the financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. As a result, revenues are recognized when earned, expenses recorded when an obligation has been incurred, and all significant intra-agency transactions have been eliminated.

E. Cash and Cash Equivalents

For purposes of the Statement of Net Assets and the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash.

F. Investments

Investments of the University are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Investments of the Foundation are carried at fair value as determined by values provided by an external investment manager and quoted market values. The carrying values of other investments and long-term liabilities approximate fair value because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

G. Inventories

Inventories consist of supplies and merchandise for resale and livestock. Inventories of supplies and merchandise are valued at the lower of cost (primarily weighted average) or market. Inventories of livestock are reported at year-end market value.

H. Capital Assets

Capital assets are recorded at cost at the date of acquisition or at estimated fair market value at the date of donation. Capitalization of interest on assets under construction has been included in the cost of those assets. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings, 10 to 30 years for infrastructure and land improvements, 2 to 20 years for equipment, and 10 years for library collections.

I. Deferred Revenue

Deferred revenue includes items such as advance ticket sales, summer school tuition not earned during the current year, and amounts received from grants and contracts that have not yet been earned.

J. Compensated Absences

Employees' compensated absences are accrued when earned under the provisions of Chapters 79 and 262 of the Code of Iowa. Accrued vacation is paid at 100% of the employee's hourly rate upon retirement, death, or termination and, with certain exceptions, accrued sick leave is paid at 100% of the employee's hourly rate to a maximum of $2,000 upon retirement. The liability for accrued compensated absences as reported on the Statement of Net Assets is based on the current rates of pay.

K. Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, as well as estimated amounts for accrued compensated absences, refundable advances on student loans, and other liabilities that will not be paid within the next fiscal year.

L. Net Assets

The University's net assets are classified as follows:

1. **Invested in capital assets, net of related debt –** Capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction, or improvement of those assets.
2. **Restricted, nonexpendable –** Net assets subject to externally imposed restrictions in which the donors or other outside sources have stipulated the principal is to be maintained inviolate and retained in perpetuity and invested for the purpose of producing income which will either be expended or added to principal.
3. **Restricted, expendable –** Net assets subject to externally imposed restrictions on use of resources either legally or contractually.
4. **Unrestricted –** Net assets not subject to externally imposed restrictions and which may be used to meet current obligations for any purpose or designated for specific purposes by action of management or the Board of Regents.

M. Operating Revenues and Expenses

Operating revenues and expenses reported on the Statement of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts, and investment income.

N. Revenue Pledged for Debt Service

Tuition and fees are pledged as security for Academic Building Revenue Bonds, Fieldhouse-Auditorium Revenue Bonds, Ice Arena Facility Revenue Notes, Indoor Multipurpose Use and Training Facility Revenue Bonds, Memorial

Union Revenue Bonds, Recreational Facility Revenue Bonds, and Student Health Facility Revenue Bonds. Auxiliary enterprise revenues are pledged as security for Dormitory Revenue Bonds, Indoor Multipurpose Use and Training Facility Revenue Bonds, Memorial Union Revenue Bonds, Parking System Revenue Bonds, Regulated Materials Facility Revenue Bonds, Student Health Facility Revenue Bonds, Telecommunications Facilities Revenue Bonds, and Utility System Revenue Bonds.

O. Auxiliary Enterprise Revenues

Auxiliary enterprise revenues primarily represent revenues generated by the Athletic Department, University Book Store, Iowa State Center, Memorial Union, Parking System, Reiman Gardens, Residence Department, ISU Dining, Student Health Center, Telecommunications System, and Utility System.

P. Debt Issuance Costs

Debt issuance costs are expensed in the year the revenue debt is sold.

Q. Encumbrances

The University utilizes encumbrance accounting for budgetary control purposes. Each June 30th, the University is required to expend or encumber any cash balances remaining from the appropriations it receives for operating purposes, reverting any unencumbered funds. According to Section 8.33 of the Code of Iowa, the University is permitted to carry encumbrances for specialized equipment and building repairs forward to the next fiscal year. The June 30, 2006, encumbered balance carried forward to fiscal year 2007 was $10,557,841 including items recognized as accounts payable for specialized equipment totaling $442,882.

R. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - CASH, CASH EQUIVALENTS, INVESTMENTS AND DEPOSITS WITH TRUSTEES

A. Cash and Cash Equivalents

As of June 30, 2006 and 2005, the book balances of cash and cash equivalents were $82,095,333 and $88,655,363, respectively. As of June 30, 2006 and 2005, the bank balances were $89,838,061 and $97,410,965, respectively, of which $50,292,473 and $54,983,942, respectively, were covered by Federal Depository Insurance (FDIC) or by the State's Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Of the bank balances as of June 30, 2006 and 2005, $39,545,588 and $42,427,023, respectively, were uninsured and uncollateralized.

B. Investments (University)

In accordance with the Code of Iowa and the Board of Regents' policy, the University's operating portfolio may be invested in obligations of the U.S. government or its agencies, certain high rated commercial paper, highly rated corporate bonds, certain limited maturity zero coupon securities, fully insured or collateralized certificates of deposits and savings, eligible bankers acceptances of 180 days or less, certain repurchase agreements, high quality money market funds and highly rated guaranteed investment contracts. The University's endowment portfolio may invest in all of the above as well as certain listed investment grade securities, certain shares of investment companies, and new issues of investment grade common stock.

For donor-restricted endowments, Chapter 540A of the Code of Iowa permits the University to appropriate an amount of realized and unrealized endowment appreciation as the University determines to be prudent pursuant to a consideration of the University's long-term and short-term needs, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The University's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the University. The University's spending rule for fiscal year 2006 was that 4.25 percent of market value based on a three-year rolling market average was calculated and distributed per the requirements of the endowment.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University manages this risk within the portfolio using the effective duration method which is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the University. The University reduces exposure to this risk by following the operating and endowment portfolio benchmarks as established by the Board of Regents.

Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Of the University's $433.1 million investments, $1,505,046 of Pooled Funds are held by the Foundation, not in the University's name.

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the University's investment in a single issuer. The University reduces exposure to this risk by complying with the Board of Regents investment policy which requires that, except for U. S. Government securities, no more than 5% of the investment portfolio shall be invested in securities of a single issuer.

The fair value, effective duration, and Standard & Poor's credit quality rating of the University's investments at June 30, 2006, were as follows:

	Fair Value	Effective Duration	Credit Quality Rating
Fixed Income:			
U. S. Government Agencies	*$ 209,499,333*	*1.60*	*TSY/AGY/AAA*
Corporate Notes and Bonds	*36,634,916*	*1.73*	*AAA*
Mutual Funds, Intermediate Term	*45,878,011*	*1.60*	*AA*
Mutual Funds, Long Term	*20,090,561*	*4.30*	*AA*
Subtotal	*312,102,821*		
Equity:			
Common Stock	*69,316,082*		
Mutual Funds	*41,391,192*		
Foundation Pooled Funds	*1,505,046*		
Real Estate	*8,828,152*		
Total Investments	*$ 433,143,293*		

C. Investments (Foundation)

Investments were comprised of the following balances as of June 30, 2006 and 2005:

Investment	*June 30, 2006*	*June 30, 2005*
Pooled Investments:		
Traditional Structures – values based on quoted market prices:		
Equity	*$ 87,268,692*	*$ 86,772,253*
Fixed Income	*142,050,798*	*143,465,079*
Commodities	*7,305,278*	
Money Market Funds	*8,453,052*	*6,995,030*
Accrued Interest	*247,683*	*163,293*
Accrued Manager Fees	*(250,000)*	*(250,000)*
	245,075,503	*237,145,655*
Alternative Structures – underlying investment values based on quoted market prices:		
Equity and Fixed Income	*81,830,664*	*78,270,376*
Commodities	*7,413,747*	
	89,244,411	*78,270,376*
Alternative Structures – underlying investment values based on estimates provided by fund managers or general partners:		
Hedge Fund of Funds	*51,173,168*	*30,037,870*
Private Equity	*19,104,315*	*16,122,277*
Real Estate	*150,000*	
	70,427,483	*46,160,147*
Total Pooled Investments	*404,747,397*	*361,576,178*
Other Marketable Securities:		
Fixed Income	*21,443,035*	*23,567,069*
Equity	*18,949,862*	*18,505,719*
Total Other Marketable Securities	*40,392,897*	*42,072,788*
Equity in Subsidiary	*2,161,867*	*2,093,394*
Real Estate and Other Investments:		
Real Estate	*6,283,232*	*8,624,712*
Notes Receivable	*1,569,764*	*1,758,441*
Notes Receivable from Affiliated Entities	*863,716*	*1,429,343*
Real Estate Contracts	*25,970*	*355,101*
Accrued Interest	*561*	*1,090*
Total Real Estate and Other Investments	*8,743,243*	*12,168,687*
Total Investments	*$456,045,404*	*$417,911,047*

D. Deposits with Trustees

Funds on deposit with trustees for the purpose of paying current obligations of bond principal and interest at June 30, 2006 and 2005, totaled $98,403 and $98,403, respectively. In addition, funds on deposit with a trustee for the purpose of financing capital lease purchases at June 30, 2006 and 2005, totaled $19,708 and $80,932, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE, DUE FROM GOVERNMENT AGENCIES, STUDENT LOANS RECEIVABLE, AND PLEDGES RECEIVABLE

A. Accounts Receivable

Accounts receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2006 and 2005, accounts receivable consisted of the following:

	June 30, 2006	June 30, 2005
Accounts Receivable	$27,669,129	$25,546,408
Allowance for Doubtful Accounts	(934,083)	(805,330)
Accounts Receivable, Net	$26,735,046	$24,741,078

B. Due from Government Agencies

Due from government agencies is composed of $4,936,950 due from state and local government agencies and $24,746,917 due from United States government agencies at June 30, 2006 and $8,706,384 due from state and local government agencies and $23,308,797 due from United States government agencies at June 30, 2005.

C. Student Loans Receivable

Student loans receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. Student loans receivable consisted of the following:

	June 30, 2006	June 30, 2005
Student Loans Receivable	$23,308,434	$22,276,255
Allowance for Doubtful Accounts	(187,156)	(203,392)
Student Loans Receivable, Net	$23,121,278	$22,072,863

D. Pledges Receivable (Foundation)

The components of the net pledges receivable as of June 30, 2006 and 2005 are as follows:

	June 30, 2006	June 30, 2005
Gross Pledges Receivable	$48,133,609	$46,837,103
Allowance for Uncollectible Pledges	(2,711,811)	(3,299,641)
Discount to Present Value	(5,953,453)	(6,208,422)
Net Pledges Receivable	$39,468,345	$37,329,040

The Foundation estimates payments on these pledges receivable as of June 30, 2006, will be received as follows:

Year Ending June 30,	Principal
2007	$ 18,621,156
2008	9,136,370
2009	7,030,498
2010	5,984,974
2011	2,633,463
Thereafter	4,727,148
Total	$ 48,133,609

In addition, the Foundation has received notification of deferred gifts totaling approximately $259,000,000 and $248,000,000 as of June 30, 2006 and 2005, respectively, primarily in the form of revocable wills.

NOTE 4 - INVENTORIES

The inventory balances on the Statement of Net Assets are comprised of two distinct categories as described in Note 1G above and scheduled below:

	June 30, 2006	*June 30, 2005*
Supplies and Merchandise for Resale	*$12,592,008*	*$12,259,673*
Livestock	*2,545,545*	*2,231,605*
Total Inventories	*$15,137,553*	*$14,491,278*

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, is summarized as follows:

	July 1, 2005	*Additions*	*Transfers*	*Deductions*	*June 30, 2006*
Capital Assets, Nondepreciable:					
Land	$ 4,683,028	$ 6,243,892	$	$ (88,246)	$ 10,838,674
Land Improvements	5,315,898				5,315,898
Construction in Progress	39,069,584	42,966,563	(37,697,409)		44,338,738
Capital Assets, Nondepreciable	49,068,510	49,210,455	(37,697,409)	(88,246)	60,493,310
Capital Assets, Depreciable:					
Buildings	830,359,211		12,748,378	(5,202,299)	837,905,290
Land Improvements	16,438,992		420,752		16,859,744
Infrastructure	144,222,244		24,528,279		168,750,523
Equipment	181,065,710	16,927,226		(8,688,186)	189,304,750
Library	145,218,776	8,135,367		(366,613)	152,987,530
Capital Assets, Depreciable	1,317,304,933	25,062,593	37,697,409	(14,257,098)	1,365,807,837
Accumulated Depreciation:					
Buildings	370,332,600	21,704,349		(4,507,188)	387,529,761
Land Improvements	6,003,123	748,629			6,751,752
Infrastructure	86,743,483	6,935,412			93,678,895
Equipment	119,104,667	12,000,978		(7,566,094)	123,539,551
Library	112,513,067	6,996,710		(366,614)	119,143,163
Accumulated Depreciation	694,696,940	48,386,078	-	(12,439,896)	730,643,122
Depreciable Assets, Net	622,607,993	(23,323,485)	37,697,409	(1,817,202)	635,164,715
Total Capital Assets, Net	$ 671,676,503	$ 25,886,970	$ -	$ (1,905,448)	$ 695,658,025

Capital assets, net of accumulated depreciation, purchased with resources provided by outstanding capital lease agreements at June 30, 2006, consisted of $1,313,767 of buildings and $671,294 of equipment.

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, is summarized as follows:

	July 1, 2005	Additions	Deductions	June 30, 2006	Current Portion
Long-Term Debt:					
Bonds Payable	$281,045,480	$ 27,529,622	$ 14,549,882	$294,025,220	$ 15,190,000
Notes Payable	1,898,974	549,784	613,656	1,835,102	559,579
Capital Leases Payable	2,121,819	2,500,000	326,699	4,295,120	653,057
Total Long-Term Debt	285,066,273	30,579,406	15,490,237	300,155,442	16,402,636
Other Long-Term Liabilities:					
Compensated Absences	35,019,479	18,881,753	17,367,129	36,534,103	16,978,015
Early Retirement Benefits Payable	6,682,700		2,360,023	4,322,677	1,841,441
Accrued Interest	3,633,922		1,189,768	2,444,154	
Refundable Advances on Student Loans	18,178,893			18,178,893	
Deferred Revenue	3,513,680		520,000	2,993,680	515,000
Deferred Compensation	-	97,388		97,388	
Total Other Long-Term Liabilities	67,028,674	18,979,141	21,436,920	64,570,895	19,334,456
Total Long-Term Liabilities	$352,094,947	$ 49,558,547	$ 36,927,157	$364,726,337	$ 35,737,092

A. Bonds Payable

Outstanding long-term revenue bond indebtedness at June 30, 2006, consisted of the following:

	Interest Rates	Maturity Dates	Amount
Academic Building	3.00 – 6.85%	2007-2028	$ 72,690,000
Less: Unamortized Discount			(262,872)
Dormitory	3.00 – 6.25%	2007-2030	131,270,000
Fieldhouse-Auditorium	4.50 – 5.00%	2007-2009	1,080,000
Indoor Multi-Purpose	2.20 – 4.50%	2007-2021	5,705,000
Less: Unamortized Discount			(77,500)
Memorial Union	2.50 – 4.625%	2007-2031	24,625,000
Less: Unamortized Discount			(318,231)
Parking System	3.10 – 5.00%	2007-2023	5,490,000
Recreational Facility	3.25 – 3.75%	2007-2011	5,275,000
Add: Unamortized Premium			65,763
Regulated Materials Facility	3.00 – 4.55%	2007-2020	6,390,000
Less: Unamortized Discount			(52,837)
Student Health Facility	5.00 – 5.50%	2007-2014	3,030,000
Telecommunications Facility	4.35 – 4.40%	2007-2008	1,790,000
Utility System	2.00 – 4.85%	2007-2027	37,560,000
Less: Unamortized Discount			(234,103)
Total Bonds Payable			$294,025,220

Debt service requirements to maturity, as of June 30, 2006, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2007	*$ 15,190,000*	*$ 14,184,698*	*$ 29,374,698*
2008	*15,865,000*	*13,563,237*	*29,428,237*
2009	*16,120,000*	*12,740,389*	*28,860,389*
2010	*16,175,000*	*10,765,873*	*26,940,873*
2011	*16,920,000*	*10,073,218*	*26,993,218*
2012-2016	*73,570,000*	*39,979,343*	*113,549,343*
2017-2021	*58,460,000*	*26,035,052*	*84,495,052*
2022-2026	*54,170,000*	*13,141,490*	*67,311,490*
2027-2031	*28,435,000*	*2,306,020*	*30,741,020*
Less: Unamortized Discount	*(945,543)*		*(945,543)*
Add: Unamortized Premium	*65,763*		*65,763*
Total	*$294,025,220*	*$142,789,320*	*$436,814,540*

In April 2006, the University issued $16,785,000 in Dormitory Revenue Refunding Bonds, Series I.S.U. 2006, the proceeds of which were held by the University Treasurer to defease $16,375,000 of Dormitory Revenue Bonds, Series I.S.U. 1999B. The refunding of these bonds resulted in the recognition of an accounting loss of $410,000, permitted the University to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $1,053,922, and will reduce future aggregate debt service payments over the next 22 years by $2,414,199.

B. Notes Payable

The University had the following notes payable outstanding at June 30, 2006:

	Interest Rates	*Maturity Dates*	*Amount*
Design College Computer	*2.24 – 4.78%*	*2007-2009*	*$ 786,914*
Ice Arena Facility	*5.95%*	*2007-2013*	*1,048,188*
Total			*$1,835,102*

Debt service requirements to maturity, as of June 30, 2006, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2007	*$ 559,579*	*$ 88,973*	*$ 648,552*
2008	*412,415*	*64,966*	*477,381*
2009	*249,451*	*45,681*	*295,132*
2010	*162,678*	*34,128*	*196,806*
2011	*172,501*	*24,305*	*196,806*
2012-2013	*278,478*	*16,731*	*295,209*
Total	*$1,835,102*	*$ 274,784*	*$2,109,886*

C. Capital Leases Payable

The University has an equipment master lease agreement to finance the acquisition of certain equipment. The lease payments are due semi-annually through fiscal year 2014 and bear interest rates ranging from 3.27% to 5.78%. The principal balance was $1,753,678 and $2,067,074, respectively, as of June 30, 2006 and 2005.

In addition to the master lease agreement, the University has other capital lease agreements with various manufacturers. During the year, the University entered into a $2,500,000 capital lease agreement to install a new video scoreboard system for Hilton Coliseum. These lease payments are due through fiscal year 2013 at interest rates ranging from 1.9% to 6.09%. The principal balance of these leases was $2,541,442 and $54,745 respectively, as of June 30, 2006 and 2005.

The following is a schedule by year of future minimum lease payments required:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2007	*$ 653,057*	*$ 205,147*	*$ 858,204*
2008	*645,350*	*190,444*	*835,794*
2009	*607,699*	*157,464*	*765,163*
2010	*565,501*	*125,060*	*690,561*
2011	*589,023*	*93,032*	*682,055*
2012-2014	*1,234,490*	*89,780*	*1,324,270*
Total	*$4,295,120*	*$ 860,927*	*$5,156,047*

NOTE 7 - OPERATING LEASES

The University has leased various buildings and equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. These leases expire before June 30, 2012, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the leased properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule, by year, of future minimum rental payments required under operating leases, which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2006.

Year Ending June 30,	*Amount*
2007	*$1,623,052*
2008	*1,478,059*
2009	*1,368,915*
2010	*750,808*
2011	*558,674*
2012	*800*
Total	*$5,780,308*

All leases contain nonappropriation clauses indicating continuation of the lease is subject to funding by the legislature.

Rental expense for the operating leases disclosed above was $1,286,841 and $1,196,194, respectively, for the years ended June 30, 2006 and 2005.

NOTE 8 - RESTRICTED NET ASSETS

The University's restricted net assets are classified according to externally imposed restrictions. The following table provides detail of the Restricted Net Assets balances.

	June 30, 2006	June 30, 2005
Restricted-Nonexpendable:		
Permanently Endowed Funds	$ 28,891,868	$ 28,481,172
Restricted-Expendable:		
Student Loans	8,798,031	8,553,977
Scholarships, Research, and Educational Purposes	13,110,271	12,542,423
Capital Projects	13,834,793	15,857,215
Total Restricted-Expendable	35,743,095	36,953,615
Total Restricted Net Assets	$ 64,634,963	$ 65,434,787

The Foundation's temporarily and permanently restricted net assets are available for the following purposes:

	June 30, 2006	June 30, 2005
Temporarily Restricted:		
College Program Support	$ 33,995,684	$ 31,437,460
Student Financial Aid	16,977,640	14,607,732
Faculty and Staff Support	5,797,090	5,268,592
Research	7,160,561	5,471,485
Building, Equipment, and Maintenance	49,802,095	43,826,366
Other	2,638,812	2,974,545
Total Temporarily Restricted Net Assets	$116,371,882	$103,586,180
Permanently Restricted:		
College Program Support	$148,151,896	$133,664,752
Student Financial Aid	135,420,712	124,592,025
Faculty and Staff Support	61,476,789	51,132,577
Research	12,473,589	12,138,171
Building, Equipment, and Maintenance	2,292,530	2,095,158
Other	10,621,226	9,549,883
Total Permanently Restricted Net Assets	$370,436,742	$333,172,566

NOTE 9 - RETIREMENT PROGRAMS

A. Teachers Insurance and Annuity Association (TIAA-CREF)

The University contributes to the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) retirement program that is a defined contribution plan. TIAA-CREF administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provisions and contribution requirements. As required by the Board of Regents' policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA-CREF, each employee through the fifth year of employment contributes 3 1/3% of the first $4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first $4,800 of earnings and 10% on earnings above $4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. The University's required and actual contributions amounted to $30,950,326 and $29,807,232, respectively, for the years ended June 30, 2006 and 2005. The employees' required and actual contributions amounted to $15,475,163 and $14,903,615, respectively, for the years ended June 30, 2006 and 2005.

B. Iowa Public Employees' Retirement System

The University contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary; the University is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. These contribution requirements are established by State statute. The University's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were $730,484, $697,173, and $652,602, respectively, equal to the required contributions for each year.

C. Early Retirement

Faculty, professional and scientific employees, merit system employees, institutional officials, and staff of the Board Office not under the Regent Merit System who were employed by the Board of Regents for a period of at least fifteen continuous years and who attained the age of 57 by June 30, 2002 were eligible for participation in the early retirement incentives program. During the years of participation in the program, the University provides the following fringe benefits based upon the employee's salary at the time of retirement and adjusted for changes in benefits that occur at specific ages: (1) the employer's contributions for health and dental insurance until the employee is eligible for Medicare coverage; (2) a $4,000 paid-up life insurance policy; and (3) for employees covered by the TIAA/CREF retirement program, employee's and employer's contributions for up to three years and employer's contributions for up to an additional two years, with contributions payable for a maximum of five years or until eligible for full Social Security benefits, whichever occurs first (contributions for employees covered by IPERS are available as a cash payment equal to the present value of the benefits). As an alternative, if the employer agrees, all or part of the incentives except the $4,000 life insurance policy could be provided as a cash payment equal to the present value of the benefit(s) for which it is substituted.

At its July 2001 meeting, the Board of Regents approved discontinuation of the early retirement incentive program upon its expiration on June 30, 2002. The Board also authorized each institutional head to exercise discretion as to whether faculty and staff who qualified for participation in the program on June 30, 2002, may have two years after expiration of the program to request participation. As a result of this change, faculty and staff of the University who were qualified for participation as of June 30, 2002, had through June 30, 2004, to elect participation.

As of June 30, 2006, 236 employees had elected to receive these early retirement benefits, for which the University is committed to future benefit payments totaling $4,322,677 as reported on the Statement of Net Assets. During the fiscal years ended June 30, 2006 and 2005, the University paid $2,846,800 and $3,595,287, respectively, for continuing benefits. All incentive payments are financed on a pay-as-you-go basis.

NOTE 10 - COMMITMENTS AND RISK MANAGEMENT

A. Commitments

At June 30, 2006 and 2005, the University had outstanding construction contract commitments of $27,481,293 and $19,178,410, respectively.

B. Risk Management

Iowa State University has elected to self-insure, or internally assume, certain potential losses where management believes it is more economical to manage these risks internally. The University's exposure and management of various risks are delineated below.

1. **Employee Health and Dental Benefits**

   The State of Iowa purchases commercial health and dental insurance for general service staff of the University. The University and employees share the cost of the premium and reimburse the State for the coverage. The University self-funds its medical and dental insurance for non-general service staff employees. The University insures its medical claims with stop-loss insurance at 120% in aggregate for the HMO plan, 125% in aggregate for all other plans, and a $300,000 individual maximum.

   The following schedule presents the changes in claims liabilities for self-funded medical and dental insurance. The claims liabilities were calculated according to generally accepted actuarial principles in accordance with Actuarial Standard of Practice No. 5, and based on data provided by the University and the health plan vendors.

	2006	*2005*
Unpaid Claims and Contingent Liabilities Accrued at July 1, 2005 and 2004	$ 3,083,000	$ 3,233,000
Claims Incurred and Contingent Liabilities Accrued During the Fiscal Year	37,109,296	36,355,454
Payments on Claims During the Fiscal Year	(36,656,296)	(36,505,454)
Unpaid Claims and Contingent Liabilities Accrued at June 30, 2006 and 2005	$ 3,536,000	$ 3,083,000

2. **Employee Workers' Compensation/Unemployment Insurance**

   The State of Iowa self-insures, on behalf of the University, for losses related to workers' compensation and unemployment claims on state supported employees. The Iowa Department of Administrative Services (DAS) administers both programs. At the beginning of the fiscal year, DAS calculates an annual workers' compensation premium to be paid in quarterly increments for non-state supported employees of the University. The University's share of unemployment claims for non-state supported employees is also billed quarterly. The University establishes an internal rate for each program and separately charges each department for the benefits. Receipts from these charges are deposited into two separate reserve funds, considered self-insured pools, from which the quarterly payments are made. Since these reserves are maintained at a level adequate to pay the required premiums by adjusting the internal rates, no additional risk is assumed.

3. **Employee Medical and Dependent Care Flexible Spending Programs**

   Eligible University employees have an option to participate in one or two flexible spending programs where they can elect to have a maximum of $5,000 deducted from payroll on a pre-tax, non-refundable basis for either or both programs. These pre-tax deductions are used by the employee to cover qualified uninsured medical, dental and vision claims under the Medical Flexible Spending Program and/or qualified dependent care expenses under the Dependent Care Flexible Spending Program. The Medical Flexible Spending Program carries an element of self-insurance risk, as required by federal law. Since the University deducts only 1/12 of an annually elected amount from the employee's pay each month, but is liable for the total annual elected amount upon presentation of appropriate claims, it would be at risk for the difference between an employee's total reimbursed claims and the amount collected from payroll deductions should the employee terminate before contributing the total amount. The University, by law, cannot seek restitution for this difference. This same risk does not apply to the payroll deduction for the Dependent Care Flexible Spending Program as an employee can only claim what has been deducted from their payroll. These employee contributions are maintained in a separate account, which has carried a surplus balance since inception of the program due to contributions exceeding claims each year. This surplus balance is used to fund the administrative costs of the program.

4. **General Liability**
The State maintains an employee fidelity bond whereby the first $100,000 of losses is the responsibility of the University. Losses between $100,000 and $2,000,000 are insured. The University also maintains an employee blanket bond to cover losses up to $4,000,000.

The State of Iowa self-insures, on behalf of the University, losses related to tort claims. The Board of Regents entered into a 28E agreement with the Department of Management, the State Appeal Board, and the Attorney General for resolution of tort claims of $5,000 or less. Regents institutions are authorized to approve individual claims up to $5,000, but not to exceed $100,000 in aggregate per year. Tort claims settled in excess of $5,000 must be unanimously approved by all members of the State Appeal Board, the Attorney General, and the District Court of the State of Iowa for Polk County. Tort claims may be paid from the State's General Fund without limit.

5. **Motor Vehicle Insurance**
The Board of Regents' institutions cooperatively self-insure for liability losses related to motor vehicles up to $250,000. Each Regents' institution is required to pay a pre-determined monthly premium for each vehicle into the cooperative insurance pool. Losses in excess of $250,000 are self-insured by the State as provided in Chapter 669 of the Code of Iowa. The University self-insures its vehicles for physical damage. In addition to liability coverage, the insurance pool also self-insures for comprehensive and collision damage.

6. **Property Insurance**
The State of Iowa self-insures, on behalf of the University, property deemed general University property which is exclusive of property belonging to self-supporting enterprises. A contingency fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (includes general University property). The Code of Iowa states that claims in excess of $5,000 may be submitted to the Executive Council for consideration. When a loss exceeds $500,000, it is necessary to seek an appropriation from the General Assembly. The University purchases catastrophic commercial property insurance, including earthquake and flood coverage, for its general fund buildings with a $2,000,000 per incident deductible. The University commercial insurance program also includes coverage for enterprise facilities such as the residence system, Iowa State Center, power plant, etc., with deductibles ranging from $10,000 to $1,000,000 per occurrence.

7. **Business Interruption and Extra Expense Insurance**
The University self-insures for business interruption losses of its general mission revenues, such as tuition and fees, etc. Commercial insurance is purchased to cover business interruption losses for self-supporting enterprises such as the golf course, residence system, Iowa State Center, etc.

8. **Insurance Settlements**
The University had no settlements exceeding insurance coverage in any of the past three fiscal years.

NOTE 11 – OPERATING EXPENSE BY FUNCTION

The following is a summary of operating expenses by functional classification for the year ended June 30, 2006.

	Compensation And Benefits	*Supplies*	*Services, Repairs & Professional Services*	*Other*	*Total*
Instruction	*$158,771,766*	*$ 8,127,746*	*$ 12,245,682*	*$*	*$179,145,194*
Research	*101,070,384*	*18,705,484*	*40,074,185*		*159,850,053*
Public Service	*50,085,808*	*6,956,249*	*17,577,320*		*74,619,377*
Academic Support	*56,709,052*	*9,420,726*	*9,475,430*		*75,605,208*
Student Services	*17,353,435*	*5,948,680*	*6,236,097*		*29,538,212*
Institutional Support	*34,340,314*	*(3,724,785)*	*(2,489,079)*		*28,126,450*
Operation & Maintenance	*26,489,495*	*23,304,702*	*1,620,790*		*51,414,987*
Scholarships & Fellowships				*24,269,829*	*24,269,829*
Auxiliary Enterprises	*46,630,188*	*31,438,444*	*10,126,450*		*88,195,082*
Independent Operations	*20,044,207*	*11,477,248*	*1,462,164*		*32,983,619*
Depreciation				*48,386,078*	*48,386,078*
Other Operating Expenses				*537,918*	*537,918*
Total Operating Expenses	*$511,494,649*	*$111,654,494*	*$ 96,329,039*	*$ 73,193,825*	*$792,672,007*

NOTE 12 - SEGMENT INFORMATION

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in those bonds rely solely on the revenue generated from the individual activities for repayment. The University's segments are described as follows:

A. Dormitory Revenue Bonds

The Dormitory Revenue Bonds were issued to build various residence halls, suites, and apartments. Revenues pledged for these issues are the net rents, profits, and income from the Department of Residence facilities of the University.

B. Field House - Auditorium Revenue Bonds

The Field House - Auditorium Revenue Bonds were issued in 1968 to build Hilton Coliseum, originally named the Fieldhouse Auditorium. Revenues pledged for this issue are the Student Fieldhouse Auditorium Fee, revenues derived from Hilton Coliseum operations, and interest on invested funds.

C. Ice Arena Facility Revenue Notes

The Ice Arena Facility Revenue Notes were issued in 2000 to construct, improve, and equip an Ice Arena Facility. Revenues pledged for this issue are the student ice arena facility fees.

D. Indoor Multipurpose Use and Training Facility Revenue Bonds

The Indoor Multipurpose Use and Training Facility Revenue Bonds were issued in 2003 to construct the Stephen and Debora Bergstrom Indoor Multipurpose Use and Training Facility. Revenues pledged for this issue are gift income and the rents, profits, and income derived from the operation of the facility, including the Multipurpose Use and Training Facility Student Fee.

E. Memorial Union Revenue Bonds

The Memorial Union Revenue Bonds were issued in 2004 to improve, remodel, repair, and construct additions to the Memorial Union Building and the Memorial Union Parking Facility and to refund the outstanding Memorial Union Series 2000 Notes. Revenues pledged for this issue are the net revenues of the Memorial Union and student building fees.

F. Parking System Revenue Bonds

The Parking System Revenue Bonds were issued in 2002 to recondition and expand vehicle parking spaces with the construction of a connecting roadway at Jack Trice Stadium. In addition, the bonds were used to construct a single level parking deck on the University campus. Revenues pledged for this issue are the net revenues of the University's parking system.

G. Recreational Facility Revenue Bonds

The Recreational Facility Revenue Bonds issued in 2004 refunded in advance of maturity the 2005 through 2010 maturities of the Recreational Facility Revenue Refunding Bonds, Series 1994, which had previously refunded the Recreational Facility Revenue Bonds of 1987. These bonds were issued to construct, improve, and equip a combined recreation/athletic facility now known as the Lied Recreation Athletic Center. Revenues pledged for this issue are the student recreational facility fees and the student athletic fees.

H. Regulated Materials Facility Revenue Bonds

The Regulated Materials Facility Revenue Bonds were issued in 2003 to construct, furnish, and equip a regulated materials facility now known as the Environmental Health & Safety Services Building. Revenues pledged for this issue are the net revenues of the Regulated Materials Facility system.

I. Student Health Facility Revenue Bonds

The Student Health Facility Revenue Bonds were issued in 1995 to construct, improve, and equip a student health center now known as the Thomas H. Thielen Student Health Center. Revenues pledged for this issue are the Student Health Facility Fees, net income from the Student Health Center operations, and gift income.

J. Telecommunications Facility Revenue Bonds

The Telecommunications Facility Revenue Bonds were issued in 1997 to construct, improve, and equip the telecommunications facilities for the University. Revenues pledged for this issue are the net rents, profits, and income from the telecommunications facilities of the University.

K. Utility System Revenue Bonds

The Utility System Revenue Bonds were issued to construct, improve and equip various components of the University's utility system. Revenues pledged for this issue are the net revenues of the utility system, utility system student fees and interest on investments.

IOWA STATE UNIVERSITY
SEGMENT INFORMATION

As of and for the year ended June 30, 2006

	Dormitory Revenue Bonds	Fieldhouse-Auditorium Revenue Bonds	Ice Arena Facility Revenue Notes	Indoor Multipurpose Facility Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current Assets	$10,155,915	$ 443,285	$ 98,403	$ 928,335
Noncurrent Assets	22,103,206	3,029,899	453,659	3,018,571
Capital Assets	131,160,270	3,491,175	3,295,804	9,596,766
Total Assets	163,419,391	6,964,359	3,847,866	13,543,672
Liabilities:				
Current Liabilities	9,223,411	390,887	98,403	922,285
Noncurrent Liabilities	128,135,995	720,000	980,969	7,806,180
Total Liabilities	137,359,406	1,110,887	1,079,372	8,728,465
Net Assets:				
Invested in Capital Assets,				
Net of Related Debt	13,164,006	2,771,175	2,314,835	4,787,916
Restricted	12,998,472	3,082,297	453,659	24,365
Unrestricted	(102,493)			2,926
Total Net Assets	$26,059,985	$ 5,853,472	$2,768,494	$4,815,207
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating Revenues	$57,932,525	$ 2,110,607	$	$
Operating Expenses	(44,671,860)	(2,677,483)		
Depreciation Expense	(4,315,425)	(127,689)	(100,908)	(252,540)
Net Operating Income/(Loss)	8,945,240	(694,565)	(100,908)	(252,540)
Nonoperating Revenues/(Expenses)	(5,356,005)	49,188	(45,573)	(213,910)
Other Revenues/(Expenses) and Transfers	(1,386,917)	906,404	185,659	529,508
Change in Net Assets	2,202,318	261,027	39,178	63,058
Beginning Net Assets	23,857,667	5,592,445	2,729,316	4,752,149
Ending Net Assets	$26,059,985	$ 5,853,472	$2,768,494	$4,815,207
CONDENSED STATEMENT OF CASH FLOWS				
Net Cash and Cash Equivalents Provided/(Used) By:				
Operating Activities	$11,639,927	$ (589,162)	$	$
Non-Capital Financing Activities				
Capital and Related Financing Activities	(11,501,342)	303,967	(11,147)	563
Investing Activities	2,729,797	1,881,627	18,736	12,670
Net Increase/(Decrease)	2,868,382	1,596,432	7,589	13,233
Beginning Cash and Cash Equivalents (restated)	4,108,509	255,120	446,070	82,797
Ending Cash and Cash Equivalents	$ 6,976,891	$ 1,851,552	$ 453,659	$ 96,030

Memorial Union Revenue Bonds	Parking System Revenue Bonds	Recreational Facility Revenue Bonds	Regulated Materials Facility Revenue Bonds	Student Health Facility Revenue Bonds	Telecommunications Facility Revenue Bonds	Utility System Revenue Bonds
$ 1,245,931	$ 808,540	$1,080,715	$ 492,134	$3,479,921	$ 1,013,089	$ 22,644,353
17,160,432	2,128,521	1,272,065	1,785,661	1,346,894	10,237,206	13,091,524
16,220,309	6,141,377	5,873,606	8,324,020	4,722,328	13,452,311	48,816,915
34,626,672	9,078,438	8,226,386	10,601,815	9,549,143	24,702,606	84,552,792
1,351,580	618,306	1,077,842	491,506	757,035	1,172,709	4,822,500
24,581,016	5,265,000	4,355,763	5,967,162	2,776,889	1,278,851	35,221,876
25,932,596	5,883,306	5,433,605	6,458,668	3,533,924	2,451,560	40,044,376
6,751,185	1,356,627	1,517,843	2,970,670	1,962,328	13,298,811	20,229,971
2,103,429	1,840,537	1,275,044	1,180,782	1,347,353	8,952,235	4,215,373
(160,538)	(2,032)	(106)	(8,305)	2,705,538		20,063,072
$ 8,694,076	$3,195,132	$2,792,781	$4,143,147	$6,015,219	$22,251,046	$ 44,508,416
$ 2,287,029	$3,040,932	$	$ 546,880	$7,388,173	$7,054,753	$ 31,306,096
(3,982,411)	(2,194,152)	(10,572)		(7,462,163)	(4,848,406)	(25,107,689)
(437,303)	(367,077)	(266,628)	(213,436)	(257,219)	(3,165,590)	(2,403,077)
(2,132,685)	479,703	(277,200)	333,444	(331,209)	(959,243)	3,795,330
(78,962)	(153,828)	(120,005)	(192,051)	7,894	229,139	(306,471)
3,461,893		1,113,447	585,141	428,574	696,908	(3,151)
1,250,246	325,875	716,242	726,534	105,259	(33,196)	3,485,708
7,443,830	2,869,257	2,076,539	3,416,613	5,909,960	22,284,242	41,022,708
$ 8,694,076	$3,195,132	$2,792,781	$4,143,147	$6,015,219	$22,251,046	$ 44,508,416
$(1,672,440)	$ 825,332	$ (10,572)	$ 546,880	$ (161,605)	$ 2,249,654	$ 7,053,666
(1,821,399)	(785,864)	(56,757)	(368,377)	(356,687)	(2,098,654)	(1,065,828)
7,344,957	92,519	61,229	60,021	142,543	(2,850,569)	4,065,305
3,851,118	131,987	(6,100)	238,524	(375,749)	(2,699,569)	10,053,143
2,082,936	1,730,617	695,363	943,172	3,782,263	6,231,523	18,436,038
$ 5,934,054	$ 1,862,604	$ 689,263	$ 1,181,696	$ 3,406,514	$ 3,531,954	$ 28,489,181

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to June 30, 2006, the Board of Regents, State of Iowa, authorized the sale of Academic Building Revenue Refunding Bonds, Series I.S.U. 2006 for $5,510,000 to be issued on September 1, 2006. These bonds will bear interest at varying rates between 4.0% and 5.0% and will mature in varying amounts from July 1, 2007 through July 1, 2015. The proceeds of these bonds will be used to refund in advance of maturity the July 1, 2007 through July 1, 2015 maturities of the Board's $7,100,000 Academic Building Revenue Bonds, Series I.S.U. 1995, and to pay for costs of issuance. The bonds will be payable only from gross student fees and charges levied against students attending the University.

Also subsequent to June 30, 2006, the Board of Regents, State of Iowa, authorized the sale of Dormitory Revenue Refunding Bonds, Series I.S.U. 2006A for $9,200,000 to be issued on September 1, 2006. These bonds will bear interest at varying rates between 4.0% and 4.375% and will mature in varying amounts from July 1, 2007 through July 1, 2027. The proceeds of these bonds will be used to refund in advance of maturity the July 1, 2007 through July 1, 2027 maturities of the Board's $9,525,000 Dormitory Revenue Bonds, Series I.S.U. 2000A, and to pay for costs of issuance. The bonds will be payable only from the net rent, profits, and income of the residence system of the University.

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